A fact sheet from THE PEW CHARITABLE TRUSTS | Sept 2013

Rhode Island's Plan for Evaluating Tax Incentives

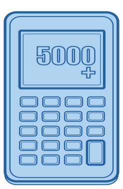
Rhode Island lawmakers approved the Economic Development Tax Incentives Evaluation Act in July 2013, making their state one of the few to regularly measure the benefits and costs of tax credits, deductions, and exemptions meant to grow jobs and businesses.

Rhode Island's reforms will help the state base its economic development strategy on solid evidence. Here's how the evaluation process works.

Five Steps to Ensure That Tax Incentives Benefit Rhode Island and Its Citizens

1 Create a strategic evaluation schedule

Rhode Island's Office of Revenue Analysis, a unit within the Department of Revenue, will develop a schedule for evaluating the state's economic development tax incentives. Regular evaluations—once every three years for existing programs—are required under the new law.



2 Measure benefits and costs

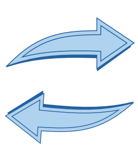
The state's Office of Revenue Analysis will evaluate each tax incentive program, drawing conclusions about its economic impact and ways it can be improved. To do so, analysts will answer key questions, such as whether the tax incentives affected businesses' decisions and to what extent the economic benefits remained in Rhode Island or flowed elsewhere. Evaluators will also identify instances when their analysis is limited by a lack of data or uncertainty about legislators' goals for the program. Lawmakers can work to remove these obstacles for future evaluations.

3 Use evidence to inform recommendations

Rhode Island's law requires that the governor's budget proposal include a recommendation to continue, reform, or end a tax incentive program after each review. This policy helps focus the attention of state leaders on evidence from recent evaluations.

4 Decide to continue, change, or end programs

Budget hearings in the legislature will provide opportunities to review evaluation results, consider the governor's recommendations, and examine the costs of each tax incentive program alongside other state spending. Lawmakers can then decide whether to change incentives.

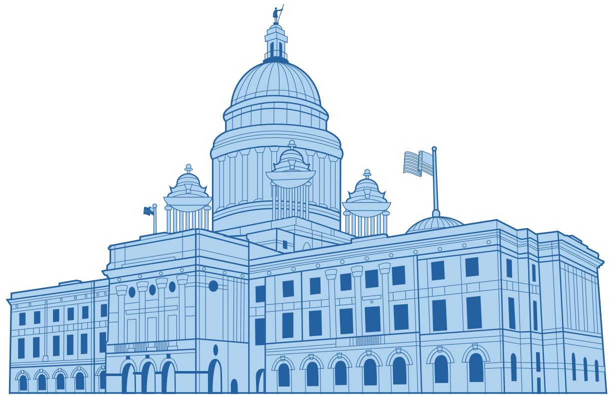


5 Repeat steps 1-4

The Office of Revenue Analysis will revise its evaluation schedule over time. Newly created tax incentives must be evaluated within five years of taking effect, while previously examined programs will come due for another review within three years. Recurring evaluations are critical even if policymakers do not alter a program, because changes in the economy can affect whether and how well a tax incentive works.

Our Work

Pew works with state lawmakers, agency staff, and economic development officials to advance policies that make tax incentive programs effective, accountable, and fiscally sound. Our experts advised sponsors of the Rhode Island legislation, helping them apply and build on lessons identified in "Evidence Counts," our national study of incentive evaluation practices.



Rhode Island State House

We welcome the opportunity to discuss how we may assist your state. Our technical assistance addresses challenges such as:

- Defining clear goals for each tax incentive program.
- Estimating and controlling incentive costs.
- Measuring incentives' economic impact.
- Establishing a strategic schedule to evaluate all incentives regularly.
- Ensuring that evaluation results are considered in policy and budget deliberations.
- Obtaining critical data needed for meaningful evaluations.

For further information, please visit:

pewstates.org/taxincentives

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